

ACCOUNTING STANDARDS BOARD

Foreword to UITF Abstracts *Issued February 1994, revised June 2010*

Introduction

- 1 This Foreword explains the authority, scope and application of the ‘UITF Abstracts’ issued by the Accounting Standards Board (ASB) that set out the consensus reached by the Urgent Issues Task Force (UITF) on particular issues. The composition and procedures of the UITF are set out in the Appendix to this Foreword.
- 2 The UITF’s main roles are to:
 - (a) assist the ASB with important or significant accounting issues where there exists an accounting standard or a provision of companies legislation (including the requirement to give a true and fair view) and where unsatisfactory or conflicting interpretations have developed or seem likely to develop; and
 - (b) in conjunction with the ASB, seek to influence the International Financial Reporting Standards Interpretations Committee.
- 2A The UITF operates by seeking a consensus as to the accounting treatment that should be adopted. Such a consensus is reached against the background of the ASB’s declared aim of relying on principles rather than detailed prescription.
- 3 The UITF forms its view as to the appropriate accounting treatment for any particular issue within the framework of the law and the principles established in the accounting standards and other statements issued or adopted by the ASB or, if applicable, the European Union through its adoption process for IFRS. The UITF has due regard to international developments.
- 4 Given the standing of the UITF’s membership, the ASB normally expects to accept the UITF’s consensus, subject only to the ASB’s overriding duty to ensure that nothing is done that conflicts with the law, accounting standards, or the ASB’s present or future policy or plans. The rules of procedure have been designed accordingly.

Authority of UITF Abstracts

- 5 The establishment of the UITF and its aim of avoiding the development of unsatisfactory or conflicting interpretations of law or accounting standards has the strong support of the Consultative Committee of Accountancy Bodies (CCAB). The Councils of the CCAB bodies expect their members who assume responsibilities in respect of financial statements to observe UITF Abstracts until replaced by accounting standards or otherwise withdrawn by the ASB. The Councils have agreed that:
- (a) where this responsibility is evidenced by the association of members' names with such financial statements in the capacity of directors or other officers other than auditors, the onus will be on them to ensure that the existence and purpose of UITF Abstracts are fully understood by fellow directors and other officers. Members should also use their best endeavours to ensure that UITF Abstracts are observed and that any significant departures found to be necessary are adequately disclosed and explained in the financial statements.
 - (b) where members act as auditors or reporting accountants, they should be in a position to justify significant departures to the extent that their concurrence with the departures is stated or implied. They are not, however, required to refer in their report to departures with which they concur, provided that adequate disclosure has been made in the notes to the financial statements.
- 6 The CCAB bodies, through appropriate committees, may enquire into apparent failures by their members to observe UITF Abstracts or to ensure adequate disclosure of significant departures.
- 7 The UITF notes the intention of Chartered Accountants Ireland of maintaining close liaison with the UITF on promulgating, with appropriate modifications for legal differences, UITF Abstracts for application in the Republic of Ireland.

Scope and application of UITF Abstracts

- 8 Directors of companies incorporated under companies legislation are required to prepare accounts that give a true and fair view of the state of affairs of the company, and where applicable the group, at the end of the financial year and of the profit and loss of the company or group for the financial year.
- 9 UITF Abstracts are applicable to financial statements of a reporting entity that are intended to give a true and fair view of its state of affairs at the balance sheet date and

of its profit or loss (or income and expenditure) for the financial period ending on that date. UITF Abstracts need not be applied to immaterial items. Nothing in the UITF Abstracts is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the ASB.

- 10 As with accounting standards it is important when applying UITF Abstracts to be guided by the spirit and reasoning behind them. The spirit and reasoning are set out in the individual UITF Abstracts (and are based on the ASB's Statement of Principles for Financial Reporting). UITF Abstracts are intended to be as concise as the nature of a particular topic allows rather than detailed rules dealing with every conceivable circumstance.
- 11 UITF Abstracts should be applied to United Kingdom and Republic of Ireland group financial statements (including any amounts relating to overseas entities that are included in those financial statements). UITF Abstracts are not intended to apply to financial statements of overseas entities prepared for local purposes.
- 12 Where UITF Abstracts prescribe information to be contained in financial statements, such requirements do not override exemptions from disclosure given by law to, and utilised by, certain types of entity.

Compliance with UITF Abstracts

- 13 UITF Abstracts should be regarded as part of the corpus of practices forming the basis for determining what constitutes a true and fair view and should be read in conjunction with accounting standards. UITF Abstracts consequently may be taken into consideration by the Financial Reporting Review Panel (the Review Panel) in deciding whether financial statements call for review.
- 14 In Great Britain, the Review Panel and the Department for Business, Innovation and Skills, and in Northern Ireland the Department of Enterprise, Trade and Investment, have procedures for receiving and investigating complaints regarding the annual accounts of companies in respect of apparent departures from the accounting requirements of the companies legislation including the requirement to give a true and fair view. The Review Panel is authorised under the legislation to apply to the court for a declaration or declarator that the annual accounts of a company do not comply with the statutory requirements and an order requiring the directors of the company to prepare revised accounts. The Department for Business, Innovation and Skills and the Department of Enterprise, Trade and Investment have similar powers [In the Republic of Ireland, the Irish Auditing and Accounting Supervisory Authority

(IAASA) is the body responsible for examining whether the annual and half-yearly financial reports of companies coming within scope of the EU Transparency Directive, as transposed into Irish law, have been drawn up in accordance with the relevant reporting framework, which would include UITF abstracts. The IAASA has the requisite powers under Irish legislation to require a company to amend or re-issue its financial statements where they do not comply with the relevant reporting framework. The Office of the Director of Corporate Enforcement is responsible for the enforcement of criminal breaches of the Irish Companies Acts, including those that relate to financial statements. The Review Panel does not operate in the Republic of Ireland].

- 15 The requirement to give a true and fair view may in special circumstances require a departure from UITF Abstracts. However, because UITF Abstracts are formulated with the objective of ensuring that the information resulting from their application faithfully represents the underlying commercial activity, the ASB envisages that only in exceptional circumstances will departure from the requirements of a UITF Abstract be necessary in order for the financial statements to give a true and fair view.
- 16 If in exceptional circumstances compliance with the requirements of a UITF Abstract is inconsistent with the requirement to give a true and fair view, the requirements of the UITF Abstract should be departed from to the extent necessary to give a true and fair view. In such cases informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with the economic and commercial characteristics of the circumstances concerned. Particulars of any material departure from a UITF Abstract, the reasons for it and its financial effects should be disclosed in the financial statements. The disclosure made should be equivalent to that given in respect of departures from specific accounting provisions of companies legislation.

Applicability of a UITF Abstract to transactions entered into before the Abstract was issued

- 17 When a new UITF Abstract is issued the question arises whether its provisions should be applied to transactions that took place before the promulgation of the Abstract. The general policy of the ASB is that the provisions of UITF Abstracts should apply to all material transactions irrespective of the date at which they are entered into. The reasons for this policy are set out more fully in paragraphs 27-30 of the 'Foreword to Accounting Standards'. All references in those paragraphs to 'accounting standards' should be in the present context be read as references to 'UITF Abstracts'.

UITF Abstracts and the legal framework

- 18 The status of UITF Abstracts in United Kingdom legislation is addressed in the 1993 Opinion by Miss Mary Arden QC (now the Honourable Mrs Justice Arden DBE) ‘The true and fair requirement’, which is published as an appendix to the ‘Foreword to Accounting Standards’ and should be read in conjunction with this Foreword*.

Dissemination and implementation

- 19 The UITF Abstracts are made publicly available by the ASB for the guidance of users, preparers and auditors of financial information. They include a discussion of the matter, the accounting issues identified, reference sources, and a summary of the UITF’s deliberations, and clearly indicate what conclusion has been reached.
- 20 If the UITF is unable to reach a consensus, or if a consensus is not ratified by the ASB, an explanation of the circumstances will be published.
- 21 A UITF Abstract takes effect from the effective date in the published Abstract, and is thereafter to be regarded as accepted practice in the area in question. Accordingly, all reporting entities will be expected to conform to it, if necessary by changing previously adopted accounting policies, unless the consensus explicitly states otherwise.

* In May 2008, the Financial Reporting Council published an Opinion by Martin Moore QC that endorsed the analysis in the 1993 Opinion by Mary Arden QC, and a follow up Opinion by Leonard Hoffmann QC and Mary Arden QC in 1994. The Moore Opinion confirms the continued relevance of the true and fair requirement to the preparation of financial statements in the UK, whether they are prepared in accordance with international or UK accounting standards.

Appendix A

Composition and procedures of the UITF

Composition

- A1 The UITF is a committee of the ASB comprising a number of people of standing in the field of financial reporting. Its purpose is to enlist the experience and influence of its members to assist the ASB in its task of establishing and improving standards of financial accounting and reporting, for the benefit of users, preparers and auditors of financial information.
- A2 The UITF consists of up to fifteen members experienced in the technicalities of financial reporting. The membership includes:
- up to seven senior representatives from the largest accounting firms;
 - one member from a medium-sized or small accounting firm;
 - four members from industry or commerce; and
 - up to three further members chosen on a personal basis.
- A3 The ASB may adjust the size and composition of the UITF from time to time.
- A4 Members are appointed by the ASB for periods of up to two years. Membership is personal. Each member is entitled to appoint a named alternate; any such appointment and subsequent changes of appointment shall be notified to the Secretary of the ASB before the named alternate acts in the place of the member. The named alternate may attend and vote at any meetings that the member is unable to attend. If neither the member nor his named alternate is able to attend, the member may appoint another alternate to attend that meeting and shall inform the Secretary of the ASB in advance of the meeting, but such alternate does not have the right to vote.
- A5 The office of Chairman of the UITF shall be held by the Chairman of the ASB.
- A6 Members of the ASB are free to attend UITF meetings and have the right to speak, but do not have the right to vote.
- A7 The Chairman may invite others to attend UITF meetings as observers.

Admission of items to the agenda

- A8 Auditors and preparers, and others with an interest in financial reporting, are invited to refer substantial new issues to the UITF where there is doubt about the most appropriate accounting treatment leading to a true and fair view and it is important that a standard treatment should be established. Issues to be considered by the UITF may also be raised by its members and appointed observers.
- A9 The Councils of the CCAB bodies invite their members to raise for possible consideration by the UITF any substantial accounting issues of general concern that arise in connection with the preparation and audit of financial statements. In raising such issues members should not disclose information of a confidential nature either directly or by implication to anyone likely to be aware of the background.
- A9A The source of an item for admission to the agenda need not be revealed to the UITF.
- A10 The UITF will not consider any issue that the ASB indicates falls within its own agenda unless specifically requested to do so by the ASB.

Consultation

- A11 The urgent nature of the matters dealt with by the UITF necessarily means that it is not possible for it to follow an extended consultation and due process procedure. The ASB therefore takes special measures to publicise the matters on the UITF's agenda. Preliminary decisions reached by the UITF are circulated for comment to recipients of the ASB Bulletin and to finance directors of listed companies.

Quorum

- A12 The quorum for a meeting of the UITF is ten voting members or their named alternates.

Meetings and voting

- A13 Voting may take place either at meetings, by post or by e-mail. A consensus is necessary for the approval of an Abstract for ratification and issue by the ASB.
- A14 A consensus will have been attained at a meeting of the UITF where not more than two voting members of the UITF, or their named alternates, present at the meeting dissent from the treatment proposed as the appropriate accounting practice for the matter in question.

- A15 A consensus will have been attained in a postal or e-mail vote of the UITF where
- (a) at least eleven of those eligible to participate in the vote (see below) return their votes by the relevant deadline and
 - (b) not more than two of those eligible to vote have registered, by the relevant deadline, a vote against the treatment proposed as the appropriate accounting practice for the matter in question. Participation in a postal or e-mail vote is open only to those members and named alternates who were present at the last meeting of the UITF at which the topic was considered as an agenda item. Where a member was represented at that meeting by his named alternate, either he or the named alternate may register a vote.
- A16 When voting slips are dispatched for a postal or e-mail vote, the Chairman of the UITF shall specify the deadline (being not less than seven calendar days from the date of dispatch) by which votes are to be returned. At his discretion the Chairman may, if the deadline has not yet been reached, extend it by up to seven further calendar days. If the Chairman is unable for any reason to specify the deadline, the deadline shall be specified by the Technical Director of the ASB.
- A17 A member of the UITF is expected to support any vote of his named alternate and to agree to be bound by it.
- A18 The Chairman has no vote.
- A19 Meetings of the UITF shall be chaired by the Chairman of the UITF or in his absence the Technical Director of the ASB, or such other person as the Chairman may nominate, shall preside as chairman of the meeting.

Ratification by the ASB

- A20 As indicated in paragraph 4 of the 'Foreword to UITF Abstracts', the ASB will normally expect to accept the UITF's consensus. However, the ASB retains the right to decline to accept any consensus that it believes is contrary to law or to its extant or intended accounting standards. Where such a situation arises the ASB will set out its views to the UITF in writing for consideration as soon as practicable thereafter with the objective if possible of achieving a mutually acceptable solution.
- A21 A consensus that has been ratified by the ASB will be published by the ASB as a UITF Abstract.